

LOGAN COUNTY
SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2005

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District
Russellville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Logan County School District** (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash

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flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2005 on our consideration of **Logan County School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 16 and 57 through 60 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Logan County School District's** basic financial statements. The combining and individual nonmajor fund financial statements and additional information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the **Logan County School District**. The combining and individual nonmajor fund financial statements, other additional information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Holland CPAs, PSC

Russellville, Kentucky
October 5, 2005

Required Supplementary Information

Management's Discussion and Analysis

Logan County School District

Russellville, Kentucky

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

This discussion and analysis of the Logan County School District (the District) is offered by management as a narrative overview of the financial activities of the District for the fiscal year ended June 30, 2005. Readers are encouraged to consider this information in conjunction with the District's financial statements, notes to financial statements, and additional information contained within the body of the audit.

FINANCIAL HIGHLIGHTS

- Total government-wide net assets increased 5% for the fiscal year ended June 30, 2005, with total long-term obligations decreasing \$1,505,834. Total fund balances of all governmental funds decreased \$3,054,561 with the expenditure of reserved construction funds, while the unreserved portion of the governmental fund balances decreased \$597,760.
- Total expenses related to governmental activities for the fiscal year ended June 30, 2005 were \$24,225,829, up \$1,125,748 over the previous year, of which \$5,810,546 was offset by operating and capital grants and contributions, up \$203,862 over the preceding year. General revenues (mainly property taxes, utility taxes, and funding from the state) provided for the balance of the expenditures.
- Approximately \$3,439,908 were expended on facility acquisition and improvements during the year, with \$90,034 of improvements under contract but not yet completed. There are currently plans to acquire and construct another approximately \$5.5 million of facilities during the coming year, dependent upon adequate state funding of the District's regular operating activities. Construction and renovations are performed consistent with the District's long-range facilities plan approved by the Kentucky Department of Education.
- Total general revenues of governmental activities increased 2%, with increased state aid offsetting decreases in utility tax collections and investment earnings.
- The financial statements reflect a total of \$3,461,636 of revenues and aid from the state for payments made by the state on-behalf of district employees for retirement contributions and health insurance. A like amount of expenses are also recorded in the financial statements.



OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three components — management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include government-wide financial statements and fund financial statements, which reflect different perspectives of the District's financial operations.

The government-wide financial statements consist of two statements: *Statement of Net Assets*; and, *Statement of Activities*. These statements provide both short-term and long-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual funds of the District, reporting the District's operations in more detail than the government-wide statements. The governmental funds statements reflect how operations were financed in the short term as well as what remains for future spending. The proprietary funds statements show short-term and long-term financial information about the activity the District operates like a business (food service). Fiduciary funds statements provide information on financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include *Notes to Financial Statements* that provide more detailed and additional information that is essential to a full understanding of the data provided in the basic government-wide and fund financial statements. Following the statements is *Required Supplementary Information* that further supports the financial statements with a comparison of the District's budget for the year.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the District as a whole using the accrual basis of accounting similar to that which is used by private-sector businesses. The *Statement of Net Assets* includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *Statement of Activities*, regardless of when cash is received or disbursed.

The two government-wide statements report the District's net assets — the difference between the District's total assets and total liabilities, and how they have changed. Increases or decreases in net assets over time may be an indicator of the District's financial position. One must consider, however, additional factors in assessing the overall financial position of the District such as Kentucky's funding from the state's general budget, the District's local tax base, educational programs and expenditures required by law regardless of funding, and other factors.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005



The District's activities are divided into two categories in the government-wide financial statements:

- **Governmental Activities** — Most of the District's services are included here such as instruction, student and administrative support, operation and maintenance of facilities, and pupil transportation. Capital assets and long-term obligations are also included. Locally assessed taxes and intergovernmental revenues principally support these governmental activities.
- **Business-Type Activities** — These activities are partially funded by charges for the goods and services provided. The District's food service is reported as a business-type activity. Food service is also partially funded by federal and state grants.

The most striking difference between the District and a private-sector company is the source of revenues. Unlike most private-sector businesses, the assets of the District exist to provide services to students and do not generate revenue. The major revenue sources include Kentucky's Seek Excellence in Education Funding (SEEK), the state's school funding formula appropriated from its biennial general budget, and locally assessed taxes. Current and future operations, including the payment of related debt on capital assets, are dependent upon these funding sources continuing at adequate levels.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information regarding the District's accounting funds as opposed to the District as a whole, focusing on the District's major funds. A fund is a grouping of related accounts used to segregate sources of funding and spending on particular programs or activities. The District's funds are mandated by the state as part of a statewide uniform system of accounting for school districts to ensure compliance with finance and legal requirements. The District's major funds are the General Fund, Special Revenue Fund, and Construction Fund. The District has three types of funds:

Governmental Funds – Most of the District's services and activities are included in governmental funds which focus on cash inflows and outflows and the balances remaining at year-end that are available for future spending. The modified accrual method of accounting is used to report these funds, which measures cash and financial assets that can be readily converted to cash. Therefore, the governmental funds statements provide a detailed short-term view to help indicate the financial resources available to finance the District's programs in the near future. Since the governmental funds statements do not encompass the additional long-term focus of the government-wide statements, a reconciliation of the differences is provided in the financial statements.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005



Proprietary Funds – The District's only proprietary fund is food service. The proprietary fund statements are the same as the business-type activities in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary Funds – The District is fiduciary for assets that belong to others and is responsible for ensuring that assets reported in the fiduciary funds are used only for their intended purposes. The District's fiduciary funds consist of student activities funds and the scholarship fund. These funds are excluded from the government-wide financial statements because the assets cannot be used to finance the operations of the District.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. Total net assets of governmental activities and business-type activities increased 5% and 3% respectively. Total long-term obligations decreased \$1,505,834 while assets other than capital assets decreased \$2,870,351, due primarily to construction expenditures. Unrestricted net assets decreased \$529,237, even though unrestricted net assets from business-type activities increased \$82,267. The District's largest asset is its investment in capital assets, constituting 70% of total assets. Capital assets, net of related debt, are 60% of net assets. Long-term obligations make up 89% of the total liabilities.

Following is a summary of the District's government-wide net assets for the fiscal years ended June 30, 2004 and 2005:

Net Assets for the Fiscal Years Ended June 30, 2004 and 2005

	Governmental Activities		Business-Type Activities		District Total	
	2004	2005	2004	2005	2004	2005
Current and other assets	\$ 14,663,437	\$ 11,709,914	\$ 673,339	\$ 756,511	\$ 15,336,776	\$ 12,466,425
Capital assets	25,707,535	28,490,270	768,983	734,910	26,476,518	29,225,180
Total assets	40,370,972	40,200,184	1,442,322	1,491,421	41,813,294	41,691,605
Long-term obligations	16,298,384	14,785,989	35,521	42,082	16,333,905	14,828,071
Other liabilities	1,505,706	1,737,417	4,295	3,721	1,510,001	1,741,138
Total liabilities	17,804,090	16,523,406	39,816	45,803	17,843,906	16,569,209
Net assets						
Invested in capital assets, net of related debt	12,563,883	14,465,621	748,901	709,746	13,312,784	15,175,367
Restricted	809,580	629,242	0	0	809,580	629,242
Unrestricted	9,193,419	8,581,915	653,605	735,872	9,847,024	9,317,787
Total net assets	\$ 22,566,882	\$ 23,676,778	\$ 1,402,506	\$ 1,445,618	\$ 23,969,388	\$ 25,122,396

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005



Changes in net assets. The District's governmental activities net assets increased by \$1,109,896 and business-type assets increased \$43,112. The increase in business-type assets (food service) resulted primarily from increased federal grants for higher participation of students receiving free and reduced-price meals.

The increase in governmental activities net assets is a result of numerous factors. The Kentucky School Facilities Construction Commission (SFCC) makes direct payments of principal and interest on District bonds issued for construction of facilities. The bonds payable are included in the long-term obligations of the District and the payments are recorded as revenue from the state. The resultant increase in net assets from the direct payment of principal by the SFCC was approximately \$838,000.

Following is a summary schedule of changes in the District's net assets for the years ended June 30, 2004 and 2005:

Changes in Net Assets for the Fiscal Years Ended June 30, 2004 and 2005

	Governmental Activities		Business-Type Activities		District Total	
	2004	2005	2004	2005	2004	2005
Revenues						
Program revenues						
Charges for services	\$ 16,329	\$ 19,194	\$ 664,717	\$ 665,862	\$ 681,046	\$ 685,056
Operating grants & contributions	3,839,519	3,903,547	862,989	919,632	4,702,508	4,823,179
Capital grants and contributions	1,767,165	1,906,999			1,767,165	1,906,999
General revenues						
Locally assessed taxes	4,479,177	4,416,502			4,479,177	4,416,502
Investment earnings	272,628	166,959	10,976	8,828	283,604	175,787
State aid	14,269,135	14,867,616			14,269,135	14,867,616
Other revenue	52,189	54,908		20	52,189	54,928
Total revenues	24,696,142	25,335,725	1,538,682	1,594,342	26,234,824	26,930,067
Expenses						
Instruction	14,958,287	15,599,518			14,958,287	15,599,518
Student and instructional staff support	1,823,204	2,043,493			1,823,204	2,043,493
School administration	1,209,187	1,265,224			1,209,187	1,265,224
District administration, business, and personnel support	647,678	660,388			647,678	660,388
Plant operation and maintenance	1,938,937	2,035,340			1,938,937	2,035,340
Pupil transportation	1,590,023	1,669,683			1,590,023	1,669,683
Interest on long-term debt	664,240	690,040			664,240	690,040
Food service			1,420,251	1,551,230	1,420,251	1,551,230
Other	268,525	262,143			268,525	262,143
Total expenses	23,100,081	24,225,829	1,420,251	1,551,230	24,520,332	25,777,059
Increase in net assets	\$ 1,596,061	\$ 1,109,896	\$ 118,431	\$ 43,112	\$ 1,714,492	\$ 1,153,008



Locally generated revenues decreased 4% for the year accounting for 18% of total governmental revenues. General revenue state aid was 59% of total revenues. State SEEK funds received increased \$182,618 due to increased enrollment and assistance in funding state mandated salary increases.

Direct instruction expenses were 64% of total governmental expenses, with student support, staff support, and school administration making up another 14%. District administration, business support, and personnel support accounted for less than 3% of total governmental expenses for both 2005 and 2004. Also, operation and maintenance of facilities was 8% and pupil transportation was 7% of the total governmental expenses for both years.

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

As noted previously, the General Fund, Special Revenue Fund, and Construction Fund are the District's major funds. The Other Governmental Funds reflected in the financial statements consist of: the SEEK Fund, also known as the Capital Outlay Fund; the FSPK Fund, also known as the Building Fund; and, the Debt Service Fund.

The District's only proprietary fund is food service which is funded by sales and operating grants, mainly federal grants for students qualifying for free or reduced-priced meals. The District has two fiduciary funds. The Student Activity Fund is used to account for monies held for student groups. The Scholarship Fund resources can only be used to fund continuing education scholarships for graduating seniors and is funded totally by contributions and investment earnings.

The main sources of the General Fund's revenues are state aid in the form of SEEK allocations and locally assessed taxes. The majority of the District's activities are accounted for in the General Fund. The Special Revenue Fund consists of grant revenues, mostly state funds and federal funds administered through the state, and expenditures of those grants for specific programs in accordance with the grants' guidelines.

The SEEK Capital Outlay Fund's revenues are derived from state SEEK allocations based upon student enrollment. The FSPK Building Fund's revenues are produced by a five-cent special property tax assessment and matching state funds. The use of both funds resources is generally restricted to facilities acquisition or improvement and payment of the related debt on facilities. The Construction Fund is used to account for facility construction and improvement projects funded by other funds or borrowing.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005



The Debt Service Fund is used to account for all activities related to long-term bond obligations. Revenues are transfers from other funds, mainly the SEEK Capital Outlay Fund and FSPK Building Fund, and state aid from Kentucky's SFCC. The revenues are used to make payments on the long-term obligations and related expenditures.

Following is a summary of fund balances for the fiscal years ended June 30, 2004 and 2005:

Governmental Funds Balances as of June 30, 2004 and 2005

	FYE 2004	FYE 2005	Increase (Decrease)
Governmental Funds			
General Fund	\$ 9,767,390	\$ 9,383,806	\$ (383,584)
Special Revenue Fund	24,488	64,973	40,485
Construction Fund	3,086,043	621,743	(2,464,300)
Other governmental funds			
SEEK Capital Outlay Fund	68,923	0	(68,923)
FSPK Building Fund	165,848	0	(165,848)
Debt Service Fund	19,890	7,499	(12,391)
Total governmental funds	\$ 13,132,582	\$ 10,078,021	\$ (3,054,561)
 Proprietary Fund (Food Service Fund)	 \$ 1,402,506	 \$ 1,445,618	 \$ 43,112
 Fiduciary Funds			
Scholarship Fund	\$ 111,530	\$ 659,257	\$ 547,727
School Activity Funds	0	0	0
Total Fiduciary Funds	\$ 111,530	\$ 659,257	\$ 547,727

The increase in food service's fund balance resulted primarily from increased federal grants for higher participation of students receiving free and reduced-price meals while maintaining costs on those additional meals at an acceptable level. The Student Activity Funds show no fund balance because all monies in the funds are held for, and are due to, student groups. The Scholarship Fund's balance increased with contributions into the fund while investment earnings approximated scholarships awarded.

The Debt Service Fund is a required conduit for payment of long-term obligations and consequently the balance changed only a minor amount. The Construction Fund's balance decreased because of construction expenditures of prior year's bond sale proceeds. The entire balances of the SEEK Capital Outlay Fund and FSPK Building Fund are restricted for use on facilities construction projects as required for participation of the SFCC in funding future debt service for those projects. Those fund balances decreased due to transfers into the Construction Fund and Debt Service Fund.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

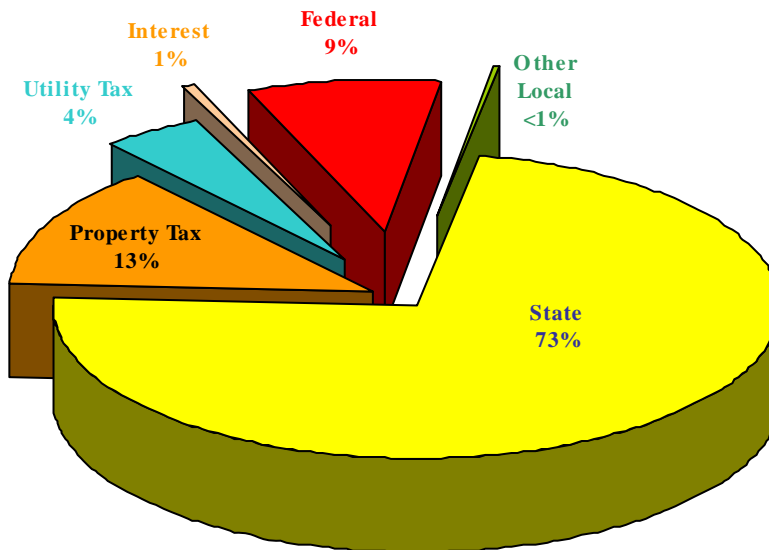


The Special Revenue Fund's balance will inherently fluctuate annually. Grants are obtained for specified purposes and the balance of the fund will change dependent upon when the grant funds are received and disbursed.

The General Fund's balance decreased approximately 3.9%. Total General Fund revenues increased \$452,509, or 2.4%, over the prior year while total expenditures increased \$1,377,307, or 7.7%. General Fund revenues from local sources decreased \$176,114, or 4.0%, while revenues from state sources increased \$598,481, or 4.2%. General Fund expenditures for instruction and instructional support services increased 6.5% over the prior year. The cost of district administration and business and personnel support services decreased in relation to total expenditures from 3.4% to 3.3%.

The following graphs indicate the relationship of types of revenues to total revenues of Total Governmental Funds for the fiscal years ended June 30, 2005 and 2004:

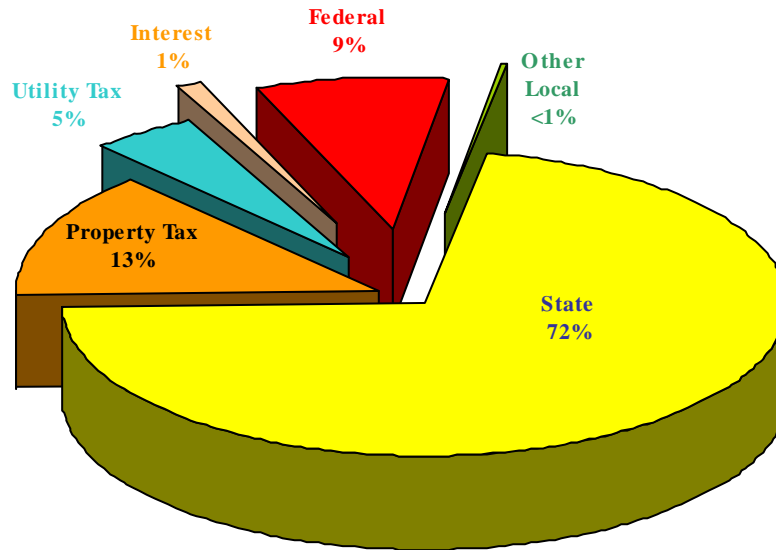
Total Governmental Funds Revenues for the Fiscal Year Ended June 30, 2005



Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005



Total Governmental Funds Revenues for the Fiscal Year Ended June 30, 2004



The District continues to find economies in operations wherever possible. Though the District is proceeding with programs and projects as planned, monies accumulated specifically for instructional programs over and above regular instruction and for future construction projects are being cautiously managed due to continued concerns over state funding.

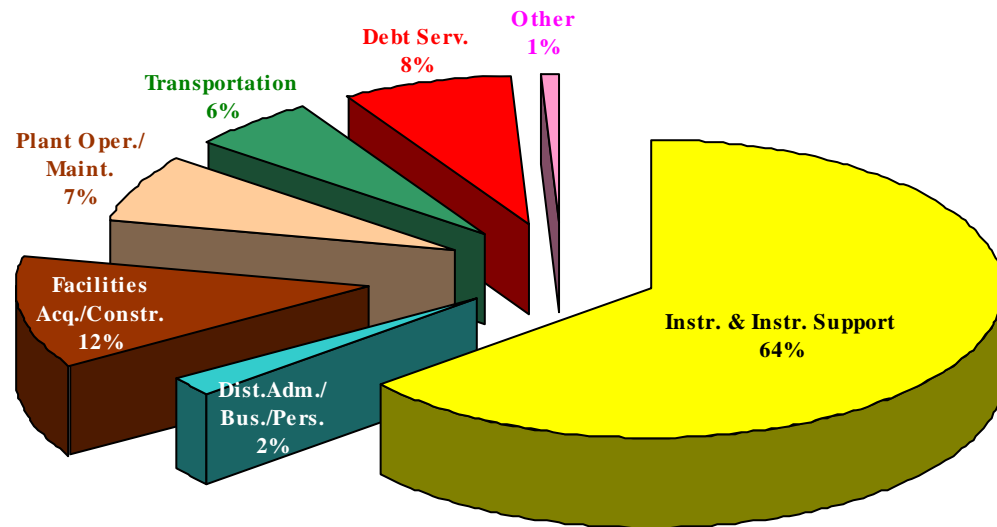
The increase in operating expenditures for instruction and instructional support is due to increased salaries and increased services delivered to students for regular and special instructional programs. Transportation, both regular and special education transportation, continues to be under-funded by the state, even as costs rise. Plant operation and maintenance expenditures remain steady as the District maintains facilities at a level to defer any deterioration. Debt Service is relatively constant based upon required bond and interest scheduled payments.

Following are graphs indicating the relationship of types of expenditures to total expenditures of Total Governmental Funds for the fiscal years ended June 30, 2005 and 2004 (the 2005 percentages of types of expenditures is skewed as compared to 2004 due to the large amount spent on facility acquisition and construction in 2005 from bonds issued in the previous year):

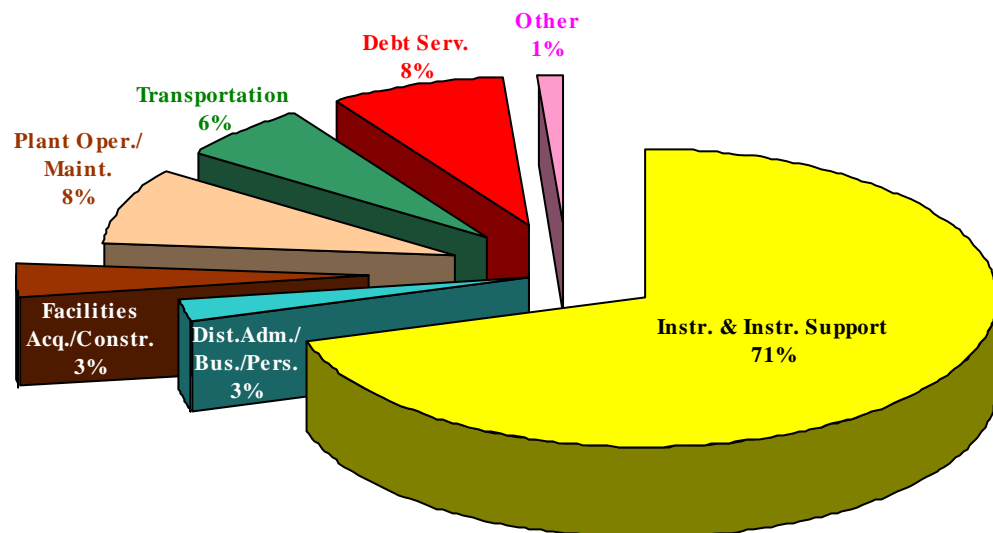
Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005



Total Governmental Funds Expenditures for the Fiscal Year Ended June 30, 2005



Total Governmental Funds Expenditures for the Fiscal Year Ended June 30, 2004





GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with directives from the Kentucky Department of Education (DOE) and Kentucky law, the District's funds budgets are prepared to account for most transactions on a cash receipt / cash disbursement / encumbrance basis. The DOE requires a budget in which any budgeted remaining fund balance is shown as a contingency expense and any amounts being accumulated for other purposes ultimately shown as unspent or over-budgeted expenditures. Over the course of the year, the District revises the annual operating budget as circumstances dictate or as required by the DOE. The major change from the original General Fund budget to the final budget resulted from changes in SEEK funding estimates and a state mandated mid-year increase to salaries and wages.

As noted on the *Budgetary Comparison Schedule for the General Fund* contained in the *Required Supplemental Information*, the budget did not include \$2,963,228 of state payments on-behalf of District employees for retirement and health benefits. These payments are reflected in the GAAP basis actual amounts as state program revenues and in each type of expenditure in relation to wages paid, with the major portion contained in instructional expenditures. Local revenues are budgeted conservatively resulting in a favorable variance of local revenues for the year.

The favorable variance in instruction expenditures reflect the funds carried over for the continuation of special instructional programs. The district administration expense surplus of budget above actual expense is due to the allocation of employee benefits based on wages originally budgeted and charged to district administration. Facilities acquisition and construction shows a large surplus because of funds accumulated for future construction projects not yet being expended. Contingency funds included in other expenditures will always reflect a surplus as it is not an expenditure category. A favorable variance in plant operations and maintenance results from energy cost increases not being as much as budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. At June 30, 2005, the District had \$29,225,180 invested in capital assets net of depreciation: historical cost totaled \$43,371,037 with accumulated depreciation totaling \$14,145,857. These assets include school, athletic, and support facilities, as well as technology, food service, and other equipment. \$3,439,905 were expended on facility acquisition and improvements during the year, with \$90,034 of improvements under contract but not yet completed. There are plans to acquire and construct another approximately \$5.5 million of facilities during the coming year. Depreciation charged to expense during the year totaled \$1,309,405, the majority of which was charged to governmental functions. More detailed information relating to capital assets may be found in Note 4 to the financial statements.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005



Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2004 and 2005:

Capital Assets for the Fiscal Years Ended June 30, 2004 and 2005

	Governmental Activities		Business-Type Activities		District Total	
	2004	2005	2004	2005	2004	2005
Land	\$ 492,781	\$ 798,482			\$ 492,781	\$ 798,482
Land Improvements	318,855	294,855			318,855	294,855
Building and Improvements	22,058,144	22,194,378	\$ 576,937	\$ 561,084	22,635,081	22,755,462
Construction in Progress	839,540	3,220,352			839,540	3,220,352
Technology Equipment	694,398	615,756	27,224	30,085	721,622	645,841
Transportation Equipment	830,005	826,089			830,005	826,089
Other equipment and furniture	473,812	540,358	164,822	143,741	638,634	684,099
	<u>\$ 25,707,535</u>	<u>\$ 28,490,270</u>	<u>\$ 768,983</u>	<u>\$ 734,910</u>	<u>\$ 26,476,518</u>	<u>\$ 29,225,180</u>

Long-Term Debt. The District's long-term general obligation bonds outstanding at June 30, 2005 were \$13,980,000, a decrease of 9.51% over the previous year. Of that amount, the Kentucky SFCC has agreed to make a portion of the principal and interest under agreements previously described. Though the District is liable for the full amount of the bonds and the full amount is recorded on the financial statements, the SFCC has agreed to repay \$4,087,776 of the bonds leaving the District to pay \$9,892,224. There were no significant changes in the District's other long-term obligations.

If facility construction plans advance as scheduled, the District will issue approximately \$2,790,000 of general obligation bonds during the forthcoming year. Of this amount, the SFCC would repay \$265,785 of that amount on behalf of the District. The bonds would have a twenty year maturity with interest rates expected to range from 3.30% to 4.45%.

The District's general obligation bonds are rated Aa3. The amount of total general obligation bonds that the District may issue is dependent upon the amount of resources in the SEEK Capital Outlay and FSPK Building Funds available for debt service. The state must approve the issuance of any new bonds of the District.

More detailed information about the District's long-term liabilities may be found in Note 5 to the financial statements.



OUTLOOK FOR THE FUTURE

The most crucial aspect in the financial future of the District is continued adequate funding from the state. The District's major source of revenue is state aid, primarily Kentucky SEEK funding. The calculated SEEK amount due to the District continues to actually not be fully funded by the state. Also, for the state's last two general budget biennium periods, a budget was not passed until almost the second year of the biennium. Being in the last year of the current state budget biennium, the District does not know the level of funding from the state past the 2006 year.

The District has worked diligently on a long-term plan to accumulate funds for additional instructional programs and future construction. The expenditure of some of these funds has been postponed in fear that the monies could be needed to fund the normal operations of the District. The future construction is needed to provide for a growing enrollment and maintain facilities at their proper level. Additional instructional programs have proved useful in guiding the district towards student proficiency as mandated and measured by the state. These are multi-year commitments that the District must be assured of being able to financially fulfill before undertaking. While the District is on a sound financial foundation for the present time and near future, the long-range plans of the District, and the work that has gone into them to date, are in jeopardy without adequate funding from the state.

With the District's tax base experiencing slow growth and state limitations on the amount local taxes may be increased, the District is unable to fill the void of state funding cuts with local assessments. The District will continue to operate conservatively to assure that a deficit does not occur due to state under-funding of calculated amounts due to the District, while making every effort to maintain all facilities at their best operating level and providing innovative instructional services and opportunities to the students of Logan County.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and other stakeholders with a general overview of the Logan County School District's accountability for the money it receives. Any questions about this report or requests for additional information should be directed to Danny L. Harris, CPA, Director of Finance, at Logan County School District, 2222 Bowling Green Road, P. O. Box 417, Russellville, KY 42276, or by calling (270) 726-2436.

Basic Financial Statements

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash	\$ 10,944,330	\$ 662,639	\$ 11,606,969
Accounts receivable:			
Taxes.....	185,754	0	185,754
Accounts.....	39,265	0	39,265
Intergovernmental	518,346	67,858	586,204
Inventory	0	26,014	26,014
Bond issuance cost.....	29,300	0	29,300
Less: accumulated amortization	(7,081)	0	(7,081)
Nondepreciable capital assets	4,018,834	0	4,018,834
Depreciable capital assets	37,810,483	1,541,720	39,352,203
Less: accumulated depreciation	(13,339,047)	(806,810)	(14,145,857)
TOTAL ASSETS	40,200,184	1,491,421	41,691,605
LIABILITIES			
Accounts payable	1,139,644	3,721	1,143,365
Accrued liabilities	335,584	0	335,584
Deferred revenue.....	134,446	0	134,446
Accrued interest.....	127,743	0	127,743
Long-term obligations:			
Due within one year:			
Outstanding bonds	1,520,000	0	1,520,000
Other	31,848	9,828	41,676
Compensated absences	400,880	11,573	412,453
Due beyond one year:			
Outstanding bonds	12,448,854	0	12,448,854
Other	23,947	15,336	39,283
Compensated absences	360,460	5,345	365,805
TOTAL LIABILITIES	16,523,406	45,803	16,569,209

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
NET ASSETS			
Invested in capital assets, net of related debt	14,465,621	709,746	15,175,367
Restricted for:			
Future construction	621,743	0	621,743
Debt service	7,499	0	7,499
Unrestricted	8,581,915	735,872	9,317,787
TOTAL NET ASSETS	\$ 23,676,778	\$ 1,445,618	\$ 25,122,396

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

		PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS								
		EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL						
GOVERNMENTAL ACTIVITIES														
Instruction.....	\$	15,599,518	\$	14,400	\$	2,955,335	\$	41,873	\$	(12,587,910)	\$	0	\$	(12,587,910)
Support services:														
Student		617,733		0		63,843		0		(553,890)		0		(553,890)
Instructional staff.....		1,425,760		0		504,265		0		(921,495)		0		(921,495)
District administration.....		402,983		0		0		0		(402,983)		0		(402,983)
School administration.....		1,265,224		0		100		0		(1,265,124)		0		(1,265,124)
Business		257,405		0		0		0		(257,405)		0		(257,405)
Plant operations and maintenance		2,035,340		4,794		42,585		0		(1,987,961)		0		(1,987,961)
Student transportation.....		1,669,683		0		83,456		0		(1,586,227)		0		(1,586,227)
Other		261,648		0		253,963		0		(7,685)		0		(7,685)
Facilities acquisition and construction.....		0		0		0		820,780		820,780		0		820,780
Interest on long-term debt		690,040		0		0		1,044,346		354,306		0		354,306
Loss on disposal of assets		495		0		0		0		(495)		0		(495)
TOTAL GOVERNMENTAL ACTIVITIES		24,225,829		19,194		3,903,547		1,906,999		(18,396,089)		0		(18,396,089)

BUSINESS-TYPE ACTIVITIES

Food services	1,551,230	665,862	919,632	0	0	34,264	34,264
TOTAL BUSINESS-TYPE ACTIVITIES	1,551,230	665,862	919,632	0	0	34,264	34,264
TOTAL SCHOOL DISTRICT	\$ 25,777,059	\$ 685,056	\$ 4,823,179	\$ 1,906,999	(18,396,089)	34,264	(18,361,825)

GENERAL REVENUES

Taxes:

Property	2,503,650	0	2,503,650
Motor vehicle	477,007	0	477,007
Utilities	1,075,394	0	1,075,394
Other	360,451	0	360,451
State aid	14,867,616	0	14,867,616
Investment earnings	166,959	8,828	175,787
Other	54,908	20	54,928

TOTAL GENERAL REVENUES	19,505,985	8,848	19,514,833
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CHANGE IN NET ASSETS	1,109,896	43,112	1,153,008
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NET ASSETS – BEGINNING OF YEAR	22,566,882	1,402,506	23,969,388
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NET ASSETS – END OF YEAR	\$ 23,676,778	\$ 1,445,618	\$ 25,122,396
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LOGAN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash	\$ 9,979,834	\$ 0	\$ 956,997	\$ 7,499	\$ 10,944,330
Accounts receivable:					
Taxes	185,754	0	0	0	185,754
Accounts	39,265	0	0	0	39,265
Intergovernmental	0	518,346	0	0	518,346
Due from other funds	222,943	0	0	0	222,943
TOTAL ASSETS	\$ 10,427,796	\$ 518,346	\$ 956,997	\$ 7,499	\$ 11,910,638

**LIABILITIES
AND FUND BALANCES**

LIABILITIES

Accounts payable	\$ 708,406	\$ 107,124	\$ 324,114	\$ 0	\$ 1,139,644
Accrued liabilities	335,584	0	0	0	335,584
Due to other funds	0	211,803	11,140	0	222,943
Deferred revenue	0	134,446	0	0	134,446
TOTAL LIABILITIES	1,043,990	453,373	335,254	0	1,832,617

FUND BALANCES

Reserved for:					
Future construction	0	0	621,743	0	621,743
Debt service	0	0	0	7,499	7,499
Unreserved	9,383,806	64,973	0	0	9,448,779
TOTAL FUND BALANCES	9,383,806	64,973	621,743	7,499	10,078,021

**TOTAL LIABILITIES AND
FUND BALANCES**

\$ 10,427,796	\$ 518,346	\$ 956,997	\$ 7,499	\$ 11,910,638
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LOGAN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 10,078,021

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds. The
cost of the assets is \$41,829,317, and the accumulated depreciation is
\$13,339,047. 28,490,270

Bond issuance costs are not financial resources and, therefore, are not
reported as assets in governmental funds. The cost of the asset is \$29,300
and the accumulated amortization is \$7,081 22,219

Long-term liabilities, including bonds payable, are not due and payable in
the current period and, therefore, are not reported as liabilities in the funds.
Long-term liabilities at year-end consist of:

Bonds payable	(13,968,854)
Accrued interest on the bonds	(127,743)
Other	(55,795)
Compensated absences	(761,340)

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES **\$ 23,676,778**

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
From local sources:					
Taxes:					
Property	\$ 2,095,856	\$ 0	\$ 0	\$ 407,794	\$ 2,503,650
Motor vehicle	477,007	0	0	0	477,007
Utilities	1,075,394	0	0	0	1,075,394
Other	360,451	0	0	0	360,451
Earnings on investments	166,533	395	27,415	31	194,374
Other local revenue	29,702	12,908	0	0	42,610
Intergovernmental – state	14,867,616	1,791,961	0	1,837,711	18,497,288
Intergovernmental – federal	44,400	2,140,551	0	0	2,184,951
TOTAL REVENUES	19,116,959	3,945,815	27,415	2,245,536	25,335,725
EXPENDITURES					
Current:					
Instruction	11,899,202	2,998,991	0	0	14,898,193
Support services:					
Student	550,713	63,843	0	0	614,556
Instructional staff	899,322	504,265	0	0	1,403,587
District administration	378,822	0	0	0	378,822

School administration.....	1,255,489	100	0	0	1,255,589
Business	256,488	0	0	0	256,488
Plant operations and maintenance.....	1,985,058	42,585	0	0	2,027,643
Student transportation.....	1,593,400	83,456	0	0	1,676,856
Other	11,526	253,963	0	0	265,489
Site acquisition	337,048	0	0	0	337,048
New building construction	0	0	3,134,206	2,200	3,136,406
Debt service:					
Principal.....	0	0	0	1,470,000	1,470,000
Interest	0	0	0	669,609	669,609
TOTAL EXPENDITURES	19,167,068	3,947,203	3,134,206	2,141,809	28,390,286
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(50,109)	(1,388)	(3,106,791)	103,727	(3,054,561)
OTHER FINANCING SOURCES (USES)					
Operating transfers	(333,475)	41,873	642,491	(350,889)	0
TOTAL OTHER FINANCING SOURCES (USES)	(333,475)	41,873	642,491	(350,889)	0
NET CHANGE IN FUND BALANCES.....	(383,584)	40,485	(2,464,300)	(247,162)	(3,054,561)
FUND BALANCES – BEGINNING OF YEAR.....	9,767,390	24,488	3,086,043	254,661	13,132,582
FUND BALANCES – END OF YEAR	\$ 9,383,806	\$ 64,973	\$ 621,743	\$ 7,499	\$ 10,078,021

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS \$ (3,054,561)

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported in governmental funds as expenditures.
However, in the statement of activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is the amount
by which capital outlays (\$3,993,122) exceeds depreciation expense
(\$1,247,314) in the period. 2,745,808

Gains and losses are not presented in governmental funds because they
do not provide or use current financial resources. However, they are
presented in the statement of activities. The difference between proceeds
from the sale of assets and the actual gain/loss from sale net to this amount
for the year..... (495)

Repayment of bond principal and other debt is an expenditure in the
governmental funds, but the repayment reduces long-term liabilities in the
statement of net assets. 1,495,080

Expenditures reported in the fund financial statements are recognized when
the current financial resource is used. However, expenses in the statement
of activities are recognized when they are incurred. (75,936)

CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES \$ 1,109,896

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

		ENTERPRISE FUND FOOD SERVICE
ASSETS		
CURRENT ASSETS		
Cash.....	\$ 662,639	
Accounts receivable:		
Intergovernmental	67,858	
Inventory	26,014	
TOTAL CURRENT ASSETS	756,511	
NONCURRENT ASSETS		
Fixed assets – net.....	734,910	
TOTAL ASSETS	\$ 1,491,421	
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable.....	\$ 3,721	
Compensated absences	11,573	
Other	9,828	
TOTAL CURRENT LIABILITIES	25,122	
LONG-TERM LIABILITIES		
Compensated absences	5,345	
Other	15,336	
TOTAL LONG-TERM LIABILITIES	20,681	
NET ASSETS		
Invested in capital assets, net of related debt	709,746	
Unrestricted.....	735,872	
TOTAL NET ASSETS	1,445,618	
TOTAL LIABILITIES AND NET ASSETS	\$ 1,491,421	

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	ENTERPRISE FUND FOOD SERVICE
OPERATING REVENUES	
Lunchroom sales	\$ 665,862
TOTAL OPERATING REVENUES	<u>665,862</u>
OPERATING EXPENSES	
Salaries and wages	620,080
Contract services	54,840
Materials and supplies	809,845
Other operating expenses	4,334
Depreciation expense	62,131
TOTAL OPERATING EXPENSES	<u>1,551,230</u>
OPERATING LOSS	<u>(885,368)</u>
NONOPERATING REVENUES (EXPENSES)	
State operating grants	83,796
Federal operating grants	776,768
Donated commodities	59,068
Interest revenue	8,828
Other	20
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>928,480</u>
CHANGE IN NET ASSETS	43,112
TOTAL NET ASSETS – BEGINNING OF YEAR	<u>1,402,506</u>
TOTAL NET ASSETS – END OF YEAR	<u><u>\$ 1,445,618</u></u>

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	ENTERPRISE FUND FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 670,838
Cash payments to employees for services	(550,177)
Cash payments for contract services	(54,840)
Cash payments to suppliers for goods and services.....	(750,787)
Cash payments for other operating expenses	(4,334)
Net Cash Used In Operating Activities	(689,300)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating grants received.....	797,222
Other.....	20
Net Cash Provided By Noncapital Financing Activities	797,242
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(28,058)
Net Cash Used In Capital And Related Financing Activities	(28,058)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments.....	8,828
Net Cash Provided By Investing Activities	8,828
NET INCREASE IN CASH	88,712
CASH – BEGINNING OF YEAR	573,927
CASH – END OF YEAR	\$ 662,639

	ENTERPRISE FUND FOOD SERVICE
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss.....	\$ (885,368)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	62,131
Commodities used.....	59,068
On-behalf payments received.....	63,342
Changes in assets and liabilities:	
Receivables	4,976
Inventories	564
Accounts payable.....	(574)
Accrued benefits	6,561
NET CASH USED IN OPERATING ACTIVITIES	\$ (689,300)

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

- ▶ The food service fund received \$59,068 of donated commodities from the federal government.
- ▶ The District received on-behalf payments of \$63,342 relating to insurance benefits.

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2005

	AGENCY FUNDS	PRIVATE PURPOSE TRUST FUNDS
ASSETS		
ASSETS		
Cash.....	\$ 315,396	\$ 659,257
Accounts receivable.....	17,203	0
TOTAL ASSETS	\$ 332,599	\$ 659,257
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 26,540	\$ 0
Due to student groups	306,059	0
	332,599	0
NET ASSETS		
Held in trust for scholarships	0	659,257
TOTAL NET ASSETS	0	659,257
TOTAL LIABILITIES AND NET ASSETS	\$ 332,599	\$ 659,257

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2005

	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS	
Earnings on investments	\$ 4,286
Contributions.....	553,551
TOTAL ADDITIONS	<u>557,837</u>
DEDUCTIONS	
Scholarships	10,110
TOTAL DEDUCTIONS	<u>10,110</u>
CHANGE IN NET ASSETS	547,727
NET ASSETS – BEGINNING OF YEAR	<u>111,530</u>
NET ASSETS – END OF YEAR	<u><u>\$ 659,257</u></u>

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

● **Reporting Entity**

The Logan County Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Logan County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Logan County School District. In accordance with GASB 39, the financial statements presented herein do not include funds of groups and organizations which, although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc., except for those funds administered as an activity in the Agency funds.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Logan County School District Finance Corporation — The Logan County Board of Education resolved to authorize the establishment of the Logan County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Logan County Board of Education also comprise the Corporation's Board of Directors.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Basis of Presentation**

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

► **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Fund* accounts for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment and to provide financial resources for debt service requirements (other than those financed by Proprietary Funds).

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. The Construction Fund is a major fund.

The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost as required by Kentucky law.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

► **Proprietary Fund Types**

Enterprise Fund

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

► **Fiduciary Fund Types** (includes agency, private purpose and trust funds)

Fiduciary funds account for assets held by the District in a trustee's capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

Agency Funds

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. The student funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

Private Purpose Trust Funds

The *Private Purpose Trust Funds* are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

The records of the District are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund, Special Revenue Fund and Capital Projects Funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● **Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Estimated Lives
Buildings and improvements	25–50 years
Land improvements.....	20 years
Technology equipment.....	5 years
Vehicles.....	5–10 years
Audio-visual equipment.....	15 years
Food service equipment.....	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other.....	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Compensated Absences**

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

● **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

● **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

● **Property Taxes**

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

● **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

● **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

NOTE 2: CASH

● **Deposits**

At June 30, 2005, the carrying amounts of the District's deposits were \$12,581,622 and the bank balances were \$14,102,361, which was covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

The carrying amounts are reflected in the financial statements as follows:

Governmental funds.....	\$ 10,944,330
Proprietary funds.....	662,639
Fiduciary funds.....	974,653
	<u>\$ 12,581,622</u>

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 2: CASH (Continued)

► *Custodial Credit Risk-Deposits*

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. The District's bank balance of \$14,102,361 was not exposed to custodial credit risk as of June 30, 2005.

NOTE 3: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2005 consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Construction Fund	\$ 11,140
General Fund	Special Revenue Fund	211,803

The interfund activity relates to the temporary cash needs of other funds provided by the general fund.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 492,781	\$ 305,701	\$ 0	\$ 798,482
Construction in progress	839,540	3,134,207	753,395	3,220,352
Total Nondepreciable Historical Cost	1,332,321	3,439,908	753,395	4,018,834
Capital assets that are depreciated:				
Land improvements	772,587	0	0	772,587
Buildings and improvements	28,876,258	787,432	0	29,663,690
Technology equipment	2,785,214	236,587	96,696	2,925,105
Vehicles	3,370,812	193,127	0	3,563,939
General	758,277	126,885	0	885,162
Total Depreciable Historical Cost	36,563,148	1,344,031	96,696	37,810,483
Less accumulated depreciation for:				
Land improvements	453,732	24,000	0	477,732
Buildings and improvements	6,818,114	651,198	0	7,469,312
Technology equipment	2,090,816	314,734	96,201	2,309,349
Vehicles	2,540,807	197,043	0	2,737,850
General	284,465	60,339	0	344,804
Total Accumulated Depreciation	12,187,934	1,247,314	96,201	13,339,047
Total Depreciable Historical Cost, Net	24,375,214	96,717	495	24,471,436
Governmental Activities, Capital Assets, Net	\$ 25,707,535	\$ 3,536,625	\$ 753,890	\$ 28,490,270

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 4: CAPITAL ASSETS (Continued)

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities:				
Capital assets that are depreciated:				
Buildings and improvements	\$ 792,679	\$ 0	\$ 0	\$ 792,679
Technology equipment	37,877	15,960	748	53,089
General.....	685,325	12,098	1,471	695,952
Total Depreciable Historical Cost	1,515,881	28,058	2,219	1,541,720
Less accumulated depreciation for:				
Buildings and improvements	215,742	15,853	0	231,595
Technology equipment	10,653	13,099	748	23,004
General.....	520,503	33,179	1,471	552,211
Total Accumulated Depreciation	746,898	62,131	2,219	806,810
Total Depreciable Historical Cost, Net	768,983	(34,073)	0	734,910
Business-Type Activities, Capital Assets, Net	\$ 768,983	\$ (34,073)	\$ 0	\$ 734,910

Depreciation expense was charged to governmental functions as follows:

Instruction.....	\$ 956,005
Support services:	
Student	5,365
Instructional staff	27,706
District administration	29,024
School administration	9,635
Business	2,845
Plant operations and maintenance	17,612
Student transportation	190,456
Other	8,666
Total Depreciation Expense	\$ 1,247,314

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 5: GENERAL LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1993	\$ 3,455,000	5.10%—5.125%
1996	1,405,000	4.00%—5.00%
1997	4,090,000	3.80%—5.10%
1998	5,580,000	1.00%—4.125%
1998B	990,000	3.70%—4.00%
2000	1,875,000	5.25%—5.60%
2000B	2,830,000	4.55%—5.10%
2003	1,920,000	1.50%—3.65%
2004	2,570,000	2.50%—5.00%

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Logan County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 5: GENERAL LONG-TERM OBLIGATIONS (Continued)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005 for debt service (principal and interest) are as follows:

Year	Logan County School District		School Facility Construction Commission		Total Debt Service
	Principal	Interest	Principal	Interest	
2005–2006	\$ 661,050	\$ 450,492	\$ 858,950	\$ 173,628	\$ 2,144,120
2006–2007	514,880	425,117	655,120	138,111	1,733,228
2007–2008	527,445	405,289	477,555	110,825	1,521,114
2008–2009	544,914	383,775	315,086	90,325	1,334,100
2009–2010	571,070	360,986	328,930	77,848	1,338,834
2010–2011	593,175	336,406	226,825	64,620	1,221,026
2011–2012	623,039	310,046	151,961	55,429	1,140,475
2012–2013	645,788	281,529	159,212	49,061	1,135,590
2013–2014	572,744	250,423	102,256	42,267	967,690
2014–2015	598,166	221,702	106,834	37,469	964,171
2015–2016	517,773	189,765	112,227	32,383	852,148
2016–2017	542,255	164,303	117,745	26,917	851,220
2017–2018	569,918	137,245	110,082	21,416	838,661
2018–2019	600,693	108,763	84,307	16,697	810,460
2019–2020	631,502	78,445	88,498	12,513	810,958
2020–2021	662,477	46,276	77,523	8,419	794,695
2021–2022	163,580	25,440	36,420	5,660	231,100
2022–2023	171,832	17,588	38,168	3,912	231,500
2023–2024	179,923	8,996	40,077	2,003	230,999
	<u>\$ 9,892,224</u>	<u>\$ 4,202,586</u>	<u>\$ 4,087,776</u>	<u>\$ 969,503</u>	<u>\$ 19,152,089</u>

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 5: GENERAL LONG-TERM OBLIGATIONS (Continued)

Maturities of other debt are as follows for the fiscal year ending June 30:

	<u>Governmental</u>	<u>Food Service</u>
2006.....	\$ 31,848	\$ 9,828
2007.....	13,962	11,318
2008.....	9,985	4,018
Total	\$ 55,795	\$ 25,164

Changes in long-term obligations are as follows:

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Bonds and notes payable:					
General obligation debt.....	\$ 15,450,000	\$ 0	\$ (1,470,000)	\$ 13,980,000	\$ 1,520,000
Less deferred issuance discounts and premiums.....	(12,616)	0	1,470	(11,146)	0
Less deferred amount on refundings.....	(31,441)	0	31,441	0	0
Total Bonds and Notes Payable	15,405,943	0	(1,437,089)	13,968,854	1,520,000
Other liabilities:					
Other.....	43,453	37,422	(25,080)	55,795	31,848
Compensated absences.....	705,835	120,131	(64,626)	761,340	400,880
Total Other Liabilities	749,288	157,553	(89,706)	817,135	432,728
Total Long-Term Liabilities	\$ 16,155,231	\$ 157,553	\$ (1,526,795)	\$ 14,785,989	\$ 1,952,728
Proprietary activities:					
Other liabilities:					
Other.....	20,082	15,305	(10,223)	25,164	9,828
Compensated absences.....	15,439	2,958	(1,479)	16,918	11,573
Total Other Liabilities	\$ 35,521	\$ 18,263	\$ (11,702)	\$ 42,082	\$ 21,401

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 6: PENSION PLANS

► *Plan Descriptions*

The Logan County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

► *Funding Policy*

KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 8.48% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2005, 2004 and 2003 were \$298,189, \$244,619 and \$203,587, respectively, equal to the required contributions for each year.

For the year ended June 30, 2005 the Commonwealth contributed \$1,415,129 to the KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2005 were \$98,924, which represents those employees covered by federal programs.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 6: PENSION PLANS (Continued)

The amount recognized for revenues and expenses/expenditures for on-behalf payments relating to fringe benefits, retirement benefits and insurance for the District's employees for the year ended June 30, 2005 was \$3,398,293 for the governmental funds and \$63,342 for proprietary funds.

NOTE 7: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 8: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 9: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 10: EXCESS EXPENDITURES OVER APPROPRIATIONS

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

Fund	Amount
General	\$ 383,584
SEEK	68,923
FSPK.....	165,848
Debt Service	12,391
Construction.....	2,464,300

NOTE 11: FUND TRANSFERS

Fund transfers for the year ended June 30, 2005 consist of the following:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	Matching	\$ 41,873
Operating	General	Construction	Construction	178,111
Operating	SEEK	Construction	Construction	156,728
Operating	FSPK	Construction	Construction	307,652
Operating	General	Debt Service	Debt Service	113,491
Operating	SEEK	Debt Service	Debt Service	216,795
Operating	FSPK	Debt Service	Debt Service	752,555

Required Supplemental Information

LOGAN COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2005

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCES FAVORABLE (UNFAVORABLE) FINAL TO ACTUAL
	ORIGINAL	FINAL		
REVENUES				
Local and intermediate sources	\$ 3,958,289	\$ 3,958,289	\$ 4,204,943	\$ 246,654
State programs	11,734,195	11,900,788	11,904,388	3,600
Federal programs	10,000	10,000	44,400	34,400
TOTAL REVENUES	15,702,484	15,869,077	16,153,731	284,654
EXPENDITURES				
Current:				
Instruction	12,014,096	12,035,831	9,672,159	2,363,672
Support services:				
Student	496,712	498,524	465,989	32,535
Instructional staff	811,587	811,641	751,127	60,514
District administration	624,186	451,836	348,552	103,284
School administration	1,018,899	1,024,413	1,020,443	3,970
Business	250,224	230,196	221,080	9,116
Plant operations and maintenance	2,031,018	2,087,184	1,894,617	192,567
Student transportation	1,274,559	1,523,123	1,481,299	41,824
Other	2,757,400	2,757,400	11,526	2,745,874
Site acquisition	350,000	384,892	337,048	47,844
New building construction	3,500,000	3,500,000	0	3,500,000
TOTAL EXPENDITURES	25,128,681	25,305,040	16,203,840	9,101,200

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(9,426,197)</u>	<u>(9,435,963)</u>	<u>(50,109)</u>	<u>9,385,854</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers	<u>(341,193)</u>	<u>(331,427)</u>	<u>(333,475)</u>	<u>(2,048)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(341,193)</u>	<u>(331,427)</u>	<u>(333,475)</u>	<u>(2,048)</u>
NET CHANGE IN FUND BALANCE.....	<u>(9,767,390)</u>	<u>(9,767,390)</u>	<u>(383,584)</u>	<u>9,383,806</u>
FUND BALANCE – BEGINNING OF YEAR.....	<u>9,767,390</u>	<u>9,767,390</u>	<u>9,767,390</u>	<u>0</u>
FUND BALANCE – END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 9,383,806</u></u>	<u><u>\$ 9,383,806</u></u>

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:

Actual amounts (budgetary basis).....	\$ 16,153,731
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts.....	<u>2,963,228</u>

**Total Revenues as Reported on Statement of Revenues, Expenditures and
Changes in Fund Balances — Governmental Funds** \$ 19,116,959

Outflows/expenditures:

Actual amounts (budgetary basis).....	\$ 16,203,840
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts.....	<u>2,963,228</u>

**Total Expenditures as Reported on the Statement of Revenues, Expenditures and
Changes in Fund Balances — Governmental Funds** \$ 19,167,068

LOGAN COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL REVENUE FUND
For the Year Ended June 30, 2005

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		FINAL TO ACTUAL
REVENUES				
Local and intermediate sources	\$ 12,789	\$ 13,089	\$ 13,303	\$ 214
State programs.....	1,196,446	1,487,654	1,356,896	(130,758)
Federal programs.....	1,805,374	1,890,838	2,140,551	249,713
TOTAL REVENUES	3,014,609	3,391,581	3,510,750	119,169
EXPENDITURES				
Current:				
Instruction	2,093,393	2,264,061	2,620,179	(356,118)
Support services:				
Student	62,483	62,483	54,906	7,577
Instructional staff.....	379,948	607,492	491,447	116,045
School administration.....	100	100	100	0
Plant operations and maintenance	42,303	42,303	42,585	(282)
Student transportation.....	240,755	240,755	83,456	157,299
Other.....	226,261	226,261	219,465	6,796
TOTAL EXPENDITURES	3,045,243	3,443,455	3,512,138	(68,683)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(30,634)	(51,874)	(1,388)	50,486

OTHER FINANCING SOURCES (USES)

Operating transfers.....	30,634	51,874	41,873	(10,001)
TOTAL OTHER FINANCING SOURCES (USES)	30,634	51,874	41,873	(10,001)
NET CHANGE IN FUND BALANCE	0	0	40,485	40,485
FUND BALANCE – BEGINNING OF YEAR	0	0	24,488	24,488
FUND BALANCE – END OF YEAR	\$ 0	\$ 0	\$ 64,973	\$ 64,973

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:

Actual amounts (budgetary basis)..... \$ 3,510,750

Differences — budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budget amounts..... 435,065

**Total Revenues as Reported on Statement of Revenues, Expenditures and
Changes in Fund Balances — Governmental Funds**

\$ 3,945,815

Outflows/expenditures:

Actual amounts (budgetary basis)..... \$ 3,512,138

Differences — budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budget amounts..... 435,065

**Total Expenditures as Reported on the Statement of Revenues, Expenditures and
Changes in Fund Balances — Governmental Funds**

\$ 3,947,203

Supplemental Information

LOGAN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	SEEK FUND	FSPK FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
ASSETS				
Cash.....	\$ 0	\$ 0	\$ 7,499	\$ 7,499
TOTAL ASSETS	\$ 0	\$ 0	\$ 7,499	\$ 7,499
FUND BALANCES				
FUND BALANCES				
Reserved for:				
Debt service	\$ 0	\$ 0	\$ 7,499	\$ 7,499
TOTAL FUND BALANCES	\$ 0	\$ 0	\$ 7,499	\$ 7,499

LOGAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	SEEK FUND	FSPK FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES				
From local sources:				
Taxes:				
Property	\$ 0	\$ 407,794	\$ 0	\$ 407,794
Earnings on investments	0	0	31	31
Intergovernmental — state.....	305,250	488,115	1,044,346	1,837,711
TOTAL REVENUES	305,250	895,909	1,044,377	2,245,536
EXPENDITURES				
New building construction	650	1,550	0	2,200
Debt service:				
Principal	0	0	1,470,000	1,470,000
Interest.....	0	0	669,609	669,609
TOTAL EXPENDITURES	650	1,550	2,139,609	2,141,809
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	304,600	894,359	(1,095,232)	103,727
OTHER FINANCING SOURCES (USES)				
Operating transfers	(373,523)	(1,060,207)	1,082,841	(350,889)
TOTAL OTHER FINANCING SOURCES (USES)	(373,523)	(1,060,207)	1,082,841	(350,889)
NET CHANGE IN FUND BALANCES.....	(68,923)	(165,848)	(12,391)	(247,162)
FUND BALANCES, BEGINNING OF YEAR.....	68,923	165,848	19,890	254,661
FUND BALANCES, END OF YEAR	\$ 0	\$ 0	\$ 7,499	\$ 7,499

LOGAN COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF ASSETS AND LIABILITIES
 ALL SCHOOL ACTIVITY FUNDS
 ALL AGENCY FUNDS
 June 30, 2005

SCHOOL	CASH JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Logan County High School	\$ 147,863	\$ 12,459	\$ 18,314	\$ 142,008
Adairville Elementary	25,220	2,826	551	27,495
Auburn Elementary	56,209	0	238	55,971
Chandlers Elementary	28,123	0	689	27,434
Lewisburg Elementary	19,604	918	20	20,502
Olmstead Elementary	38,377	1,000	6,728	32,649
	\$ 315,396	\$ 17,203	\$ 26,540	\$ 306,059

**LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
LOGAN COUNTY HIGH SCHOOL
June 30, 2005**

	CASH JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Art.....	\$ 261	\$ 0	\$ 0	\$ 261
Art Club	173	0	0	173
Barren River Region FF	1,929	0	0	1,929
Athletics.....	4,578	10,192	7,536	7,234
Baseball.....	7,265	0	150	7,115
Beta Club	964	0	0	964
Business and Office	483	0	0	483
Book	1,101	0	0	1,101
Bookstore	169	0	653	(484)
Boys Basketball.....	44	0	0	44
Girls Basketball	3,072	0	355	2,717
Cheerleading	665	0	0	665
Chemistry Club.....	246	0	0	246
Chess Club.....	125	0	0	125
Cross Country	2,118	0	0	2,118
DECA	92	0	0	92
Drafting/Williams	365	0	0	365
Drama/Speech	216	0	0	216
English/Harper	151	0	0	151
English/Ferguson	407	0	0	407
FBLA Club	498	0	0	498
FCA Club.....	733	0	0	733
FEA Club	381	0	0	381
FFA Club	3,786	545	480	3,851
FCCLA Club	254	0	0	254
Football.....	2,264	0	2,028	236
Friends of Library	135	0	0	135
General.....	11,069	75	0	11,144
General #1/Coke and Lance	1,392	207	232	1,367
General #2/Coke and Lance	18,655	1,198	3,128	16,725
Golf.....	729	0	0	729
Greenhouse	21,230	0	1,149	20,081
High Expectations	40	0	0	40
Home Ec B	37	0	19	18

	CASH JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Home Ec C	297	0	0	297
Home Ec D	58	0	0	58
Ind. Arts	1,096	0	0	1,096
Interact Club	20	0	0	20
JROTC	154	0	0	154
JROTC Club	1,016	115	0	1,131
KTSA Club	147	0	0	147
LCYSC	256	127	0	383
Library	1,383	0	0	1,383
Lost Book	315	0	0	315
Math	0	0	241	(241)
Pep Club	360	0	0	360
Pride	786	0	0	786
Project Graduation	6,675	0	1,941	4,734
SAP/Botula	50	0	0	50
Science Club	8	0	0	8
Science/Logsdon	9	0	0	9
Science/Myers	1	0	0	1
Softball	5,688	0	0	5,688
Spanish Club	977	0	0	977
Spanish/Myers	4	0	0	4
Student Council	1,799	0	0	1,799
Swim Team	467	0	0	467
Tennis	68	0	0	68
Track	180	0	0	180
United Way	735	0	0	735
Vo. Ag	1,511	0	31	1,480
Volleyball	3,518	0	111	3,407
Yearbook	34,658	0	260	34,398
TOTAL	\$ 147,863	\$ 12,459	\$ 18,314	\$ 142,008

LOGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through State Department of Education:			
School Breakfast Program	10.553	57604 05	\$ 234,614
National School Lunch Program	10.555	57504 02	542,156
Passed-Through State Department of Agriculture:			
Food Distribution Program	10.550	—	59,068
TOTAL U.S. DEPARTMENT OF AGRICULTURE			835,838
U.S. DEPARTMENT OF EDUCATION			
Carol M. White Phys. Ed. Program.....	84.215F	—	46,103
Passed-Through State Department of Education:			
Title I — 2004	84.010	35104 01	79,096
Title I — 2005	84.010	35105 01	552,498
Migrant Education Basic State Grant — 2004	84.011	35204 02	3,036
Migrant Education Basic State Grant — 2005	84.011	35205 02	38,194
Title I — State Administration	84.010	35105 10	84,662
Title V — Innovative Program Strategies — 2004	84.298	53304 02	7,307
Title V — Innovative Program Strategies — 2005	84.298	53305 02	26,569
IDEA — Part B Special Education — 2005.....	84.027	58105 02	708,270
IDEA — Part B Preschool — 2005	84.173	58705 02	103,224
Teacher Quality — 2004	84.281	71004 02	3,836
Teacher Quality — 2005	84.281	71005 02	178,632
Title IV — Safe & Drug Free Schools — 2004	84.186	59004 02	17,930
Title IV — Safe & Drug Free Schools — 2005	84.186	59005 02	4,332
Federal Ed. Tech — 2004.....	84.318X	73604 02	798
Federal Ed. Tech — 2005.....	84.318X	73605 02	11,033
Vocational Education — Carryforward — 2003	84.048	46203 32	797
Vocational Education — Carryforward — 2004	84.048	46204 32	1,328
Vocational Education — Basic — 2005	84.048	46205 32	28,656
Reading First	84.357A	52203 01	36,074
Reading First	84.357A	52204 01	127,185

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Passed-Through State Workforce Cabinet:			
Adult Education — Basic — 2005	84.002	—	32,954
Adult Education — Professional Staff Development — 2005	84.002	—	2,631
Adult Education — Corrections — 2005	84.002	—	5,701
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,100,846</u>
U.S. DEPARTMENT OF DEFENSE			
ROTC — 2005	12.000	—	39,703
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>39,703</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,976,387</u></u>

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Logan County School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

LOGAN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2005

None



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District
Russellville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of **Logan County School District** as of and for the year ended June 30, 2005, which collectively comprise **Logan County School District's** basic financial statements and have issued our report thereon dated October 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

● **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material

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weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we also noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated October 5, 2005.

- **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditor's Contract—State Audit Requirements*.

This report is intended solely for the information and use of the members of the **Logan County Board of Education**, Kentucky State Committee for School Districts, management of the **Logan County School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
October 5, 2005



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District
Russellville, Kentucky

● **Compliance**

We have audited the compliance of **Logan County School District** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and

Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

● **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District

This report is intended solely for the information and use of the members of the **Logan County Board of Education**, Kentucky State Committee for School Districts, management of the **Logan County School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
October 5, 2005

LOGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2005

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

LOGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2005

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555	Child Nutrition Cluster
84.027	IDEA B — Basic
84.173	IDEA B — Preschool
84.010	Title I

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

SECTION II — FINANCIAL STATEMENT FINDINGS

None

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None